

A Study of the Feasibility of Establishing
a Spray and Fertilizer Equipment Outlet
Store in the Paso Robles Area.

A Senior Project

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By

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ABSTRACT

The purpose of this feasibility study was to establish whether or not the proposed spray and fertilizer equipment outlet store could be opened and be profitable in the target area. The goal was to be profitable within two years of operations. Personal interviews proved to be important to estimate the preliminary budgets of the outlet store. Pertinent financial information was evaluated by proforma financials. This information proved useful as to estimate yearly profits/losses for the business and to accept or reject the author's hypothesis.

After the study was concluded and all of the figures were evaluated by the author, it was determined that the spray and fertilizer equipment company would be successful and be able to provide profit within two years as disclosed in the hypothesis. In year two, profits were \$31,885, which meets the goal of the hypothesis. Therefore the business should be implemented.

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CHAPTER ONE

INTRODUCTION

Area Insight

When conducting a feasibility study to decide if it is rational to expand an existing business, many relevant resources must be utilized to obtain the necessary information to put a study together. The relevant information for this study such as building lease, equipment costs, area farm data, and competitors in the target area, was gathered from various means of primary and secondary data.

Kennedy Brothers Inc. was established in 1990 in Salinas, CA selling spray and fertilizer equipment, pumps, hoses, pipe-fittings and polypropylene water and fertilizer tanks, to the farming and vegetable packing industries. Kennedy Brothers Inc. main markets are pesticide and fertilizer applicators, such as Crop Production Services, Wilbur Ellis, and many other smaller applicators and grower/applicators. After a few years, the spray and fertilizer equipment sales had increased significantly (approximately 21% per year). As a result, the company opened a store in Greenfield, CA for the convenience of their customers in the southern parts of the Salinas Valley. Finding great success in having multiple stores inclined the management into

further expansions into Santa Maria, Watsonville, and Oxnard areas within a 5-year period. With five store locations: Salinas, Watsonville, Greenfield, Santa Maria, and Oxnard the company is able to cover nearly all of California's most productive coastal farms.

The Idea

Taking notice to the expansion of farms and vineyards and vegetable production in the Paso Robles area, Kennedy Brothers has taken interest in expanding into this area. Currently most of the farmers, vineyard managers and custom applicators of the Paso Robles area are purchasing their spray and fertilizer equipment from either our Greenfield or Santa Maria stores which are both an hour drive north or south or from other vendors located in the Central Valley. Kennedy Brothers is interested in assisting our customers by opening a store in Paso Robles if it is considered feasible.

Problem Statement

Is it profitable to open an outlet Spray and Fertilizer Equipment store in the Paso Robles area?

Hypotheses

A Kennedy Bros. outlet store will be profitable within two years in the Paso Robles, CA area. The demand for the company's spray and fertilizer equipment will increase as the company is established and the quality of its product and service are well known.

Objective

The purpose of this study is to gather information and investigate the feasibility of opening an additional store in the Paso Robles, CA area for spray and fertilizer equipment. The results of this study will be used to assist Kennedy Brothers decision regarding their further business expansion.

Justification

There are numerous types of people and groups that the author hopes to benefit from the research. First and foremost, Kennedy Brothers Inc. will benefit from the information presented. This could give insight to their future and if their future will be focused on finding ways and means to further expand Kennedy Bros. into a premier Spray and Fertilizer Equipment Company. The study will also educate other people who are interested in expanding their own businesses. It will hopefully give them some various insights on business expansion.

CHAPTER TWO

Review of Literature

First of all, one must decide how to structure the expansion of the business. Mack Hanan stresses in order to grow you must find a growth market by studying ones customers. Without a growth market no growth is possible. Hanan stated, "No business can grow by itself. Only a market can grow a business because only a market has the money." (Hanan, 1987)

Growth doesn't come by finding customers to vend to. You are looking for customers to form growth partnerships, not only to help us grow, but to help our customers grow with us, thus creating a win-win relationship. What are partnerable customers? Hanan says growth partners have three major characteristics. 1) Customers must want to grow. (This means that we must know our customers to determine who wants to grow.) 2) Customers must be growable by us. (This means that we must know the customers businesses.) 3) The customers must be willing to help us grow in return. (This means we must know the Financial Basis of the customers' purchasing policies.) (Hanan, 1987) Customers who meet these conditions are prime partner material.

The author's proposed business expansion will be providing a service to its customers who currently travel long distances to receive these services. Rhonda Abrams explains that service oriented businesses are the most common and most diverse types of businesses today. (Abrams, 2000)

Valuable information was obtained from an interview with Mark Kennedy, President of Kennedy Brothers Spray and Fertilizer Equipment. During the personal interview with the author, Mr. Kennedy was kind enough to relay the various types of items necessary to successfully expand Kennedy Brothers Spray and Fertilizer Equipment into the Paso Robles, CA area. (Kennedy, 2011) This led the author to further his knowledge by speaking with other employees of Kennedy Bros. from other outlet stores to gather information about their customer basis.

Wayne Franklin, Southern California District Manager of Kennedy Bros., during a personal interview relayed information that the author needed to locate a building with a prime location for this type Agricultural retail business. He also discussed the different types of permits and licenses that will be needed to conduct the business legally. (Franklin, 2011)

Is business expansion appropriate? Not always according to Baumol, some businesses fall into a stagnation period and others scale of operations are so large that further expansion will yield diminishing returns. Baumol also states, "All of the

expansionary influences which the author has discussed can obviously be frustrated by a shortage of demand." (Baumol, 1959) This poses a question for the author. Is there enough demand in Paso Robles area for this Agricultural retail business? This is a question the author will have to research in the development of his study.

Many expenses can and will be incurred throughout the operations of any business Expansion. Advertising shall be considered to aid in promotion and awareness of the services provided for potential customers. Abrams suggests that consumers often rely on recommendations from others as one determinant when choosing a company from which to purchase product or services. She advises that business owners "should identify who those individuals or firms that are likely to be good sources of ongoing customer referrals and develop a program to cultivate and communicate with them" (p.378).

CHAPTER THREE

METHODOLOGY

Procedures for Data Collection

Personal interviews with Mark Kennedy, Kennedy Bros., Wayne Franklin and Darin Chabot, Crop Production Services are the primary sources of data. Information provided by each company is also used in this study.

A great way to learn most aspects of the retail business, like Kennedy Bros., is to actually speak to people who are in the business.

Interviews with competitors in the area have also been carried out. Speaking to these competitors can usually give sufficient insight on types of products and services they provide, general references of what you need, such as buildings, shelving, types of inventory and potential ways to advertise your store into the new area.

Personal interviews were also used to gather information from custom spray and fertilizer applicators, farmers and ranchers in the target area to determine the type of services needed.

Real estate agents have provided information regarding the type of building would best suit the business' needs in terms of lease prices and facility sizes.

Bank loan officers provided detail on the types of available loans if the business does not desire to internally finance the expansion completely.

In order to conduct these numerous interviews, the author has devised an "Interview Schedule," which can be easily manipulated to meet the needs for each type of interview. Many of the questions relate to certain types of businesses in particular (other equipment dealers, banks, farmers and ranchers), but other questions are interchangeable and can be easily altered in the interview process to related to the particular topic (Figure 1).

Figure 1. Interview Schedule Guide

These are potential questions to be asked during the interview process of Kennedy Bros. Chief Staff and competitors:

- How many outlet stores do you have currently?
- Do you have a current goal on how much you want to expand?
- How many customers are you serving in the Paso Robles area?
- Can you estimate how many farmers in the Paso Robles area are not current customers?
- What are the major customers you want to accommodate?
- Would you be willing to share information of previous outlet stores opened?
- Overall, how would this new store affect sales to other Kennedy Bros. outlet stores nearby?
- Do you have any preferences for which types of inventory are sold at each store?
- Would Kennedy Bros. be willing to Finance a new outlet store?
- What types of business licenses will be needed to operate in this area?
- What types of returns do you expect?

These are potential questions to be asked during the interview process of a Real Estate broker:

- How many large warehouse/retail type buildings are available in Paso Robles?
- Of these locations, is there easy access to the store?
- Are these buildings in an area that accommodates farmers and ranchers?
- How easy is it to find these locations?
- What are the neighboring businesses to these locations?
- What type of lease does each building require?
- How much does each building lease for?

These are potential questions to be asked during the interview process of a Loan Officer:

- What types of loans would best suit this type of business?
- What type of equity would the company need?
- What kind of repayment options does the company have?
- What types of financials do you need to get the loan process started?

These are potential questions to be asked during the interview process of a Farmer or Rancher:

- What types of crops do you raise?
- How many acres do you currently farm?
- How long have you been in the farming business?
- Do you have a need for spray or fertilizer equipment?
- Where do you currently purchase your spray and fertilizer equipment?
- If there were a spray and fertilizer equipment store in your area, would you purchase your equipment there?
- Do you currently purchase products from Kennedy Bros.? If so, from which store and how much?
- Besides spray or fertilizer equipment are there any other needs you have that are not readily available in Paso Robles?
- Do you apply your own fertilizers and pesticides?
- What is your projected business growth for the next 5 years? 10 years?

Procedures for Data Analysis

The author will analyze the Personal interview information through various methods. First, the data collected from the interview schedule from the different categories has been broken down into segments of lease costs, inventory costs, costs of operation, management costs, loan payments, etc. This useful data has given the author an approximate range to what the capital investment will be. Then the author will compare the projected costs of the business expansion from the interviewees with the hard information from Kennedy Bros. other outlet store expansions. In addition, Standard Industry Classification (SIC) information has also been used to compare financial information of the Retail Agricultural Product Sales with the rest of the industry. This provides information on how well the Ag. Retail business is in comparison to others like it in the same type of business.

After all of the primary and secondary data has been compiled the author will create Pro-forma financial statements utilizing Microsoft Excel spreadsheet program and methods presented in the accounting book (Smith, Keith and Williams). Pro-formas are used to make approximations of what the new outlet store could do based on Kennedy Bros. other outlet stores figures.

Assumptions

It is assumed that the author will be able to acquire funds directly through the existing business to start the new outlet store. Also under the assumption, that there will be a high rate of return for the business to keep operating in the area. Lastly, but most important is the assumption that the Kennedy Bros. store will be advertised enough so that the farmers and ranchers are aware the company presence in the area.

CHAPTER FOUR

DEVELOPMENT OF THE STUDY

Details of the Operation

The Business

The name of the proposed outlet store is Kennedy Bros., Spray and Fertilizer Equipment. Kennedy Bros. is a full-service spray and fertilizer equipment dealer based in Paso Robles, California, which will be owned and operated by Kennedy Ag Inc. The company will provide such products and services as agricultural spray pump sales and service, spray boom components, hoses, hose fittings and various whole good spray units such as Air-O-Fan, PBM Mfg., and Hardi spray units. The company will also be willing to carry new types of inventory to suit the needs of new and current customers in the Paso Robles area. The company will be an outlet store of a five store corporation and will be brought to life through the purchasing of the necessary equipment and inventory financed in house by Kennedy Ag Inc.

Mission Statement

Kennedy Bros, Spray and Fertilizer Equipment Company's mission is to set standards of excellence for providing the best possible sales and full-service repairs of all types of spray and fertilizer equipment for a profit, while at the same time stocking the most modern technology of spray and fertilizer equipment to benefit the customer. Kennedy Bros pricing will remain competitive and business practices will remain ethical.

The Target Market

The area in which Kennedy Bros will be targeting for business is that which lies in between King City, California to San Luis Obispo, California. This area comprises of a distance from north to south of approximately 90 miles. A map of the target market is presented with the names of cities within the area in the appendix.

Marketing

Marketing of the sales and services provided by Kennedy Bros will be somewhat colloquial. In communities such as the area being targeted by the company, much of the business conducted between farmers and ranchers is done by word of mouth. If a company has a reputation for providing quality sales and service to its customer, those in the local farming community will become aware of it due to the overall bond that exists between members of the local farming and ranching community. Still, even word of mouth advertising has its limitations within any area. So, California farmer trade magazines will be considered as a marketing avenue as well as direct mailers.

The Competition

In the area of spray and fertilizer equipment, the competition is relatively light and based in other geographies. In relation to the statement above, the author has assembled a list of competitors (Table 1) that conduct business within the target area.

Table 1. Target Area Competitors

Name of Company	Farm Supply	PBM	Coastal AG	Big W	Schaben Industries	Kisco Sales
Home base location	Paso Robles, Ca	Fowler, Ca	Santa Maria, Ca	Fresno, Ca	Bakersfield, Ca	Santa Maria, Ca
Salesperson in Paso Robles Area	1	1 part time*	1	1 part time*	1 part time*	1 part time*
Service Available	No	Yes, Fowler	Yes, Santa Maria	Yes, Fresno	No	No
Territory size	Local**	Coastal Area from Salinas to Oxnard	Local**	Coastal Area from Salinas to Oxnard	Fresno, Kings, Tulare, Kern, San Luis Obispo, Santa Barbara, and Ventura Counties	Coastal Area from Salinas to Oxnard
Paso Robles area (Years)	61	3	9	12	16	10
Years in Business	61	32	9	31	23	10
	* part time signifies that Paso Robles area is part of the sales persons larger geography.					
	**local is considered San Luis Obispo and Santa Barbara counties					

These competitors are spray and fertilizer equipment dealers who call on local vineyards, farms and ranches. The focus has been narrowed down to companies who have at least one salesperson operating in the area and/or have a local store front.

Many aspects play into this unique competitive structure. Companies who have salespeople selling spray and fertilizer equipment, tend to have large sales geographies for each salesperson. Having these large sale geographies limits the time and exposure of these companies to the target market. In the Paso Robles area, only two competitors are truly local to the Paso Robles area with one salesperson each in the area full time. Of these local competitors, Farm Supply Company carries

very little spray and fertilizer equipment inventory and seems to focus on the livestock and home garden markets.

Market Share

In San Luis Obispo County, the primary area that Kennedy Brothers Spray and Fertilizer equipment Paso Robles store will be operating in has 117,700 acres in crop production worth over \$552,917,000 dollars (2008 San Luis Obispo County Crop Report). Of the 117,700 acres 36,845 are in wine grape production where over 80% of the growers own and operate their own spray and fertilizer equipment. Unlike the wine grape growers, only about 20% of vegetable growers own and operate their own spray and fertilizer equipment. The vegetable growers rely on companies such as Crop Production Services, Wilbur Ellis and other small applicators that conduct business in the target market. These spray and fertilizer service companies will also be in need of spray and fertilizer equipment, parts and service. Due to the recent economic events, the opportunity for the service market to grow is very promising. With the downturn of the economy and the prices of crops down, and fertilizers and pesticides prices at record highs growers and spray companies are not replacing equipment at the regular intervals. Instead, they are

rebuilding and repairing existing equipment. As of now, the market is absent of a local full service spray and fertilizer equipment dealer.

Future Competition

The opportunity for future competition given the current market conditions is relatively low, yet as the market recovers the opportunity will become more attractive for the competition to enter the market or offer local repair services. To offer these local repair services requires a local site (store/repair facility) with inventory to make the necessary repairs.

Barriers to Entry

Companies that are currently conducting business in the area may have an upper hand on a new entrant into the market. Not only do they currently have a client base they have a reputation (good or bad) within the target market.

In addition to client acquisitions being a barrier, the most important barrier may be the start-up cost of the business. The initial investment can be extremely high to acquire all of

the equipment, display shelves, parts bins, and a full service shop necessary to operate. Even though the start-up costs will be funded in house there are still limitations on the initial investment.

Key People

- Daniel Rodriguez is a 2011 graduate of California Polytechnic State University, San Luis Obispo. Daniel majored in Agriculture Business with a concentration in Finance and Appraisal. Currently in the industry for 14 years, he possesses the business skills to successfully run this type of business.
- Mark Kennedy, President of Kennedy Brothers, Inc. Spray and Fertilizer equipment. Mark has committed to furnish the outlet store with all of the necessary shelving, display items, tools and inventory to get the outlet running. He has also committed \$50,000 cash for other expenditures that may arise. These are essential factors to the initial operations of the outlet.
- Crop Production Services, Paso Robles is a major player in the start of the success of the outlet store. They are guaranteeing Kennedy Brothers outlet store one year of spray and fertilizer parts purchases and an exclusive contract to service all of their spray and transfer pumps. This is an essential factor to the startup success.

Disclosure: It is acknowledged and accepted that Daniel Rodriguez has secured a verbal agreement to provide spray and fertilizer equipment and service to Crop Production Services, Paso Robles. Crop Production Services has entered into this mutual agreement because of the exemplary service Kennedy Brothers, Inc. spray and fertilizer equipment has provided to their other outlets in the state. Crop Production Services operates more than 40 fully staffed facilities in California. After one year of sales and service Crop Production Services, Paso Robles will evaluate the performance of Kennedy Brothers, Inc. Paso Robles Outlet store and decide on their options to continue doing business with the outlet store at that time.

Financials

Many different resources were used to gather pertinent information for this feasibility study. In relation to the financial information that was gathered, the personal interviews appeared to be the most useful when estimating expenses and revenues for the first three years. When estimating inventories, employees, and advertising expenses, the author utilized Mark Kennedy, President of Kennedy Bros. Mark Kennedy was able to provide financials from other outlet store openings. Even though Mr. Kennedy provided the author financials, they were only to be used as guides and not to be published per request. The author was able to use these financials to estimate the outlet store opening expenses and potential revenues based on averages of the three other outlet openings.

Potential available business locations were gathered from Mike Turnquist, a local Realtor. Building locations varied from downtown areas to rural/industrial areas and sizes ranged from 800 to 10,000 square feet. It is determined the most suitable size and location for Kennedy Bros. spray and fertilizer equipment would be 2500 square feet or greater and a location in an industrial area with exposure to the street. A suitable location was found in an industrial area near many agriculture

businesses with 2500 sq. ft. for \$0.55 sq. ft. per month, a very reasonable rate for a warehouse/retail setting.

A detailed listing of financial statements including a budget, proforma income statement, proforma statement of cash flows, and a proforma balance sheet are included following this section.

Useful Financial Statements

Pro Forma Annual Business Budget	
Kennedy Bros Inc, Paso Robles Outlet store	
Expense Category	Planned Expense
Building Rent / Lease	\$16,200.00
Equipment Rent / Lease	\$2,500.00
Product / Material	
Inventory	\$150,000.00
Other	\$2,500.00
Marketing Expenses	
Brochure	\$500.00
Website	\$5,000.00
Business Cards	\$500.00
Advertising	\$5,000.00
Other	\$500.00
Administrative Expenses	
Fax/Copies	\$1,000.00
Postage/Shipping	\$5,000.00
Office Supplies	\$2,500.00
Other	\$1,000.00
Sales Expenses	
Mileage	\$25,000.00
Parking	\$250.00
Other	\$1,500.00
Operating Expenses	
Utilities	\$12,000.00
Insurance	\$15,000.00
Other	\$1,000.00
Salaries	\$75,000.00
Miscellaneous	\$0.00
Total Expenses	\$321,950.00

Proforma Income Statement

Kennedy Bros Inc, Paso Robles Outlet Store

	Year 1	Year 2	Year 3
Total Revenues	\$265,000	\$375,000	\$425,000
Cost of Sales	\$111,300	\$157,500	\$178,500
Total Revenue	\$153,700	\$217,500	\$246,500
Gross Margin	42%	42%	42%
Operating Expenses			
Selling, General, Admin Expenses	(171,950)	(171,950)	(171,950)
Depreciation			
Total Operating Expenses	(171,950)	(171,950)	(171,950)
Earning (Loss) before interest and Tax	(18,250)	45,550	74,550
Interest Expense			
Earnings (Loss) before taxes EBT	(18,250)	45,550	74,550
Income Taxes @30%		13,665	22,365
Net Earnings (Loss)	(18,250)	31,885	52,185
Owners' Capital or Retained Earing Reconciliation			
	Year 1	Year 2	Year 3
Beginning Owners' Capital	50,000	31,750	13,635
EBT or Net Earnings	(18,250)	31,885	52,185
(Withdrawals) or (Dividends)	0	(50,000)	(50,000)
Ending Owners' Capital or Retained Earnings	31,750	13,635	15,820

Proforma Cash Flow Statement				
Kennedy Bros. Inc, Paso Robles Outlet				
		Year 1	Year 2	Year 3
	Cash at Beginning of year	\$50,000	\$31,750	\$13,635
Operations				
	Cash Receipts from Customers	\$265,000	\$375,000	\$425,000
Cash Paid for				
	Inventory purchases	(\$111,300)	(\$157,500)	(\$178,500)
	General Operating and Admin Expenses	(\$171,950)	(\$171,950)	(\$171,950)
	Interest			
	Income Taxes		(\$13,665)	(\$22,365)
	Net Cash Flow from Operations	(\$18,250)	\$31,885	\$52,185
Investing Activities				
Cash receipts from				
	Sale of property and equipment			
	Collection of principal on loans			
	Sale of investment securities			
Cash paid for				
	Purchase of property and equipment			
	Making loans to other entities			
	Purchase of investment securities			
	Net Cash Flow from Investing Activities	\$0	\$0	\$0
Financing Activities				
Cash receipts from				
	Issuance of stock			
	Borrowing			
Cash Paid for				
	Repurchase of stock			
	Repayment of loans			
	Withdrawals/Dividends		(\$50,000)	(\$50,000)
	Net Cash Flow from Financing Activities	\$0	(\$50,000)	(\$50,000)
	Net Increase in Cash	(\$18,250)	(\$18,115)	\$2,185
	Cash at End of Year	\$31,750	\$13,635	\$15,820

Balance Sheet

Kennedy Bros Inc, Paso Robles Outlet

	Year 1	Year 2	Year 3
Assets			
Current Assets			
Cash	\$50,000	\$31,750	\$13,635
Accounts Receivable	\$265,000	\$375,000	\$425,000
Inventories	\$111,300	\$157,500	\$178,500
Other Assets			
Total Current Assets	\$426,300	\$564,250	\$617,135
Fixed Assets			
Land			
Buildings			
Machinery			
Furniture, Fixtures, etc.			
Total Property, Plant and Equipment	\$0	\$0	\$0
Less Accumulated Depreciation			
Net property, Plant and Equipment	\$0	\$0	\$0
Total Assets	\$426,300	\$564,250	\$617,135
Liabilities			
Current Liabilities			
Accounts Payable	\$111,300	\$157,500	\$178,500
Short-term debt			
other current liabilities	\$171,950	\$171,950	\$171,950
Total Current Liabilities	\$283,250	\$329,450	\$350,450
Long-term Liabilities			
Total Liabilities	\$283,250	\$329,450	\$350,450
Owners' Equity			
Owners' Capital	\$111,300	\$221,165	\$250,865
Retained Earnings	\$31,750	\$13,635	\$15,820
Total Equity	\$143,050	\$234,800	\$266,685
Total Liabilities and Owners' Equity	\$426,300	\$564,250	\$617,135

CHAPTER FIVE

Summary, Conclusions and Recommendations

Summary

The author of this research project set out to determine if starting an Outlet store of Kennedy Bros Inc. in the Paso Robles area would be feasible. A hypothesis was set and testing proved that the company would not be profitable during the first year of operations, yet the company can be profitable in years two and three. Buildings, inventory and advertising were calculated in addition to the pertinent financial statements and included within the "Development of the study," Chapter Four.

The author assumed that an agreement had been made with Crop Production Services to provide pumps, parts and services for the first year of it operation in the Paso Robles area. This agreement is one of the most important factors in deciding the initial success of the business.

Conclusions

The proposed business can be a successful business due to the Knowledge, relationships and agreements that the owner and potential store manager possess. The target market, target area, competitive analysis, marketing plan, financial statements and the key people involved in the business have all been defined as to eliminate all uncertainties before entering into this endeavor. With the work ethic and determination that the Owner and potential store manager show, they should become successful in the Paso Robles area.

Recommendations

After conducting this study and acquiring and analyzing all of the appropriate information necessary to realize the feasibility and success of the proposed business, it is recommended that the business proposed should be initiated. The owner of Kennedy Bros Inc should utilize the study as a tool for planning and organizing the business, as it will be quite useful.

The author also recommends that even though an agreement has been made, it would be beneficial to continue to seek other

business and build relationships with other potential clients in effort to further promote the company and grow future sales.

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